

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 1122 - SB 1073**

February 25, 2017

**SUMMARY OF BILL:** Reimburses counties and municipalities for the loss of Hall Income Tax (HIT) revenue resulting from the future reductions and elimination of the tax as provided for in Tenn. Code Ann. § 67-2-124(b) and (c). Establishes that such reimbursement shall be in an amount such that the sum of the reimbursement and HIT revenue otherwise received by each county and municipality is equal to the total HIT revenue received by the county and municipality in FY15-16. Phases out the level of reimbursement for FY22-23 and subsequent years, until it is fully eliminated in FY31-32.

**ESTIMATED FISCAL IMPACT:**

**Other Fiscal Impact – To the extent the General Assembly does not enact bills for any year FY17-18 through FY21-22 to reduce the HIT rate by one percent per year, as legislative intent calls for in Tenn. Code Ann. § 67-2-124(b), there will be an increase in state expenditures, and an equivalent increase in local government revenue, of: \$99,746,100 in FY22-23; \$88,663,200 in FY23-24; \$77,580,300 in FY24-25; \$66,497,400 in FY25-26; \$55,414,500 in FY26-27; \$44,331,600 in FY27-28; \$33,248,700 in FY28-29; \$22,165,800 in FY29-30; and \$11,082,900 in FY30-31.**

**To the extent the General Assembly does enact bills for each year FY17-18 through FY21-22 to reduce the HIT rate by one percent per year, there will be an increase in state expenditures, and an equivalent increase in local government revenue, of: \$35,626,400 in FY17-18; \$54,427,000 in FY18-19; \$73,227,700 in FY19-20; \$92,028,300 in FY20-21; \$110,828,900 in FY21-22; \$99,746,100 in FY22-23; \$88,663,200 in FY23-24; \$77,580,300 in FY24-25; \$66,497,400 in FY25-26; \$55,414,500 in FY26-27; \$44,331,600 in FY27-28; \$33,248,700 in FY28-29; \$22,165,800 in FY29-30; and \$11,082,900 in FY30-31.**

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, the HIT is a five percent tax on income derived from dividends on stock or from interest on bonds.
- Pursuant to Tenn. Code Ann. § 67-2-124(b) and (c), it is the legislative intent that the tax be reduced by one percent annually through enactments of general bills; the tax shall be eliminated for tax years beginning on or after January 1, 2022.

- This bill will reimburse the local government for the loss of HIT revenue resulting from the reduction and elimination of the tax pursuant to Tenn. Code Ann. § 67-2-124(b) and (c), but local entities will not be reimbursed for the HIT rate cut from six percent to five percent, enacted by Public Chapter 1064 of the Public Acts of 2016.
- In FY15-16, local governments were allocated \$110,828,947 of total HIT collections.
- The current Fiscal Review Committee staff estimate for HIT collections in FY17-18, at a current HIT rate of five percent, is \$272,000,000. The taxable base is estimated to be \$5,440,000,000 ( $\$272,000,000 / 5.0\%$ ), and is assumed to remain constant into perpetuity.
- Based on apportionments of HIT collections for the last three fiscal years (FY13-14, FY14-15, and FY15-16), it is estimated that the state retains 65.44 percent of HIT revenue and local governments are apportioned 34.56 percent.
- The impact of this bill is largely dependent on future actions of the General Assembly.
- For the purposes of this fiscal analysis, any allocation of funds from the General Fund to the local governments pursuant to this bill is considered an increase in state expenditures and an increase in local government revenue.

Assumptions related to impacts if no HIT rate reductions occur in FY17-18 through FY21-22:

- To the extent the General Assembly does not enact bills for any year FY17-18 through FY21-22 to further reduce the HIT rate by one percent per year, as legislative intent calls for in Tenn. Code Ann. § 67-2-124(b), the impact of this bill on state and local revenue or expenditures in FY17-18 through FY21-22 will be not significant as local governments will not be reimbursed for losses of HIT revenue resulting from any previous HIT rate cuts.
- The impact will occur in FY22-23 through FY30-31, as the HIT will be eliminated beginning in FY22-23 and local governments will be reimbursed for a portion of their revenue losses through FY30-31.
- The increase in state expenditures and an equivalent increase in local revenue is estimated to be:
  - \$99,746,052 in FY22-23 ( $\$110,828,947 \times 90\%$ );
  - \$88,663,158 in FY23-24 ( $\$110,828,947 \times 80\%$ );
  - \$77,580,263 in FY24-25 ( $\$110,828,947 \times 70\%$ );
  - \$66,497,368 in FY25-26 ( $\$110,828,947 \times 60\%$ );
  - \$55,414,474 in FY26-27 ( $\$110,828,947 \times 50\%$ );
  - \$44,331,579 in FY27-28 ( $\$110,828,947 \times 40\%$ );
  - \$33,248,684 in FY28-29 ( $\$110,828,947 \times 30\%$ );
  - \$22,165,789 in FY29-30 ( $\$110,828,947 \times 20\%$ ); and
  - \$11,082,948 in FY30-31 ( $\$110,828,947 \times 10\%$ ).

Assumptions related to impacts if HIT rate reductions do occur in FY17-18 through FY21-22:

- To the extent the General Assembly does enact bills for each year FY17-18 through FY21-22 to further reduce the HIT rate by one percent per year, as legislative intent calls

for in Tenn. Code Ann. § 67-2-124(b), there will be a significant increase in state expenditures and a significant increase in local revenue in each of those years.

- To the extent the General Assembly enacts annual one percent HIT rate cuts between FY17-18 and FY21-22, total HIT revenue and state and local allocations are estimated to be:
  - \$217,600,000 in FY17-18 ( $\$5,440,000,000 \times 4.00\%$ ), of which \$142,397,440 is the state portion ( $\$217,600,000 \times 65.44\%$ ), and \$75,202,560 is the local portion ( $\$217,600,000 \times 34.56\%$ );
  - \$163,200,000 in FY18-19 ( $\$5,440,000,000 \times 3.00\%$ ), of which \$106,798,080 is the state portion ( $\$163,200,000 \times 65.44\%$ ), and \$56,401,920 is the local portion ( $\$163,200,000 \times 34.56\%$ );
  - \$108,800,000 in FY19-20 ( $\$5,440,000,000 \times 2.00\%$ ), of which \$71,198,720 is the state portion ( $\$108,800,000 \times 65.44\%$ ), and \$37,601,280 is the local portion ( $\$108,800,000 \times 34.56\%$ );
  - \$54,400,000 in FY20-21 ( $\$5,440,000,000 \times 1.00\%$ ), of which \$35,599,360 is the state portion ( $\$54,400,000 \times 65.44\%$ ), and \$18,800,640 is the local portion ( $\$54,400,000 \times 34.56\%$ ); and
  - \$0 in FY21-22 ( $\$5,440,000,000 \times 0.00\%$ ).
- The resulting increase in state expenditures, and an equivalent increase in local revenue, is estimated to be:
  - \$35,626,387 in FY17-18 ( $\$110,828,947 - \$75,202,560$ );
  - \$54,427,027 in FY18-19 ( $\$110,828,947 - \$56,401,920$ );
  - \$73,227,667 in FY19-20 ( $\$110,828,947 - \$37,601,280$ );
  - \$92,028,307 in FY20-21 ( $\$110,828,947 - \$18,800,640$ );
  - \$110,828,947 in FY21-22 ( $\$110,828,947 - \$0$ ).
  - \$99,746,052 in FY22-23 ( $\$110,828,947 \times 90\%$ );
  - \$88,663,158 in FY23-24 ( $\$110,828,947 \times 80\%$ );
  - \$77,580,263 in FY24-25 ( $\$110,828,947 \times 70\%$ );
  - \$66,497,368 in FY25-26 ( $\$110,828,947 \times 60\%$ );
  - \$55,414,474 in FY26-27 ( $\$110,828,947 \times 50\%$ );
  - \$44,331,579 in FY27-28 ( $\$110,828,947 \times 40\%$ );
  - \$33,248,684 in FY28-29 ( $\$110,828,947 \times 30\%$ );
  - \$22,165,789 in FY29-30 ( $\$110,828,947 \times 20\%$ ); and
  - \$11,082,948 in FY30-31 ( $\$110,828,947 \times 10\%$ ).

## CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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